

Govt push for corporate debt market on anvil

Trustees may be given access to recovery tribunals, currently restricted to banks and financial institutions

The finance ministry, which is looking to develop and deepen the corporate bond market, is likely to put in place a mechanism by which the trustee company of the corporate bonds would be allowed to access the debt recovery tribunals (DRTs) and take recourse to the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.

At present, only banks and financial institutions are allowed access to DRT and SARFAESI Act.

A trustee, representing the interest of the bondholders, is assigned to make bonds a marketable security. A corporate trustee is usually a bank or a trust company. The trustee is paid by the issuing corporation.

“We want the corporate bond market to develop well, and it is important for the trustee companies to have access to the DRTs and SARFAESI Act,” Hasmukh Adhia, secretary, department of financial services told HT.

Last week, the government, which announced a seven-point reform agenda for banks, also underlined the need to develop the corporate bond market which would also open up an additional financing channel for companies. “At present there is no depth in trading (of these corporate bonds),” Adhia added.

The NDA government has also held several discussions on the issue and corporate bonds would provide an alternative to financing the cash-starved sectors such as infrastructure.

Corporate bonds are debt securities which are issued by private and public companies with a view to raising money. The funds can be used for a variety of purposes such as building new plants, purchasing equipment, or growing the business. So if one buys a corporate bond, one lends money to the “issuer” of the bond and in exchange, the “issuer” pays a rate of interest until it returns the money, known as “principal,” on a specified maturity date.

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